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China 2020: Development Challenges in the New Century

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WASHINGTON, DC: THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/THE WORLD BANK, SEPTEMBER 1997. 7 VOLUMES (\$30 FOR MAIN BOOK; \$20 EACH FOR THE OTHER SIX; \$120 FOR ENTIRE SET), SOFTCOVER

Predicting what China's economy will look like in five years is a daunting and inexact undertaking; projecting more than 20 years into the future requires finelytuned powers of divination. Absent a crystal ball, The World Bank's seven-volume China 2020 series may be the best alternative. The strength of this volume lies in its wealth of factual and statistical information and its logical, methodical presentation. The authors, recognizing that past growth does not guarantee future success (as many Southeast Asian economies must surely now realize) describe the potential impediments to China's continued growth. This study finds a balance between the alternating rosy and bleak views of China's economy and future development, and should provide a useful foundation for businesspeople wondering what lies ahead.

The first volume of the set, China 2020: **Development** Challenges in the New Century lays out the fundamental trends that have shaped China's economy over the last two decades and promotes the World Bank's view of the **role** China's government should play vis-A-vis the market. The book examines areas of utmost importance to China's **development**: social welfare, **agriculture**, environment, and integration into the world economy. The concluding chapter contrasts two extreme scenarios: one in which the pace of reform stalls, **economic** growth moderates, and China plays a decreasingly important **role** on the world stage (termed Sinosclerosis" by the authors); and one in which the pace of reform continues to transform China into a modern, middle-income nation with a developed legal system and a strong voice in world political and **economic** circles. The authors appear optimistic that China will choose reform over retrenchment or stagnation.

CLEAR WATER, BLUE SKIES

China's environment is the subject of Clear Water Blue Skies: China's Environment in the Neu Century. A comprehensive analysis of the "environmental externalities" of China's economic growth, this book is essential reading for anyone working in China's environmental technology field, and an important reference for foreign businesses with operations in the PRC. The book's clean organization and illustrative charts make it a readable, useful addition to office libraries. Among the book's more startling findings are that only 7 percent of China's municipal wastewater is treated; only about 8 percent of the monitored urban river sections in northern China meet the standards for direct human contact; total health and productivity losses associated with urban air pollution are estimated at \$20 billion a year; and the largest health and productivity losses stem from urban air pollution-in particular debilitating, chronic bronchitis. The book forecasts the effects of certain environmental conditions under "business as usual" circumstances versus under moderate and high investment scenarios. This approach is an especially effective means of demonstrating to China the importance of addressing its environmental problems sooner rather than later.

AT CHINA'S TABLE

At China's Table: Food Security Options offers an in-depth analysis of China's ability to feed its populace in the coming decades, as well as an evaluation of China's current food-storage system and options. The report reviews China's food consumption and demand patterns, past sources of economic growth in agriculture, and China's agricultural research endeavors. The report, moreover, outlines such agriculture-related challenges for China as balancing fertilizer application, developing and reclaiming land, improving water distribution and irrigation, and upgrading the transportation infrastructure. How China copes with these potential impediments to agricultural growth will ultimately determine the country's ability to remain "food secure." Unlike Lester Brown's doomsday forecasts of China's food security, *At China's Table* offers an astute and realistic projection of China's food security situation.

FINANCING HEALTH CARE

Financing Health Care Issues and Options for China provides a startling reminder of the successes of Maoism—something that is little mentioned in polite society these days, whether in China or abroad. At the start of the Deng reforms in 1978, according to the report, almost 90 percent of the population was covered by some form of health insurance, whereas in 1993, 65 percent of rural people and 15 percent of city dwellers were uninsured—a figure that almost certainly has since grown for the urban population. The shift to a blend of planned and market-driven mechanisms in health care has reaped some benefits but also created serious problems: declining immunization rates; overuse of profitable treatments, especially drugs and diagnostic tests; and rising costs without a concomitant gain in the quality of care. In response, the World Bank recommends more funding for China's Epidemic Prevention Service, subsidies for essential health care in the poorest rural districts, price reform, and measures to reduce smoking.

The volume is strongest in its analysis of public health problems, and less successful in describing current practice and needed reform in health insurance. In China, it is hard to fault researchers for being out of date, because the landscape changes entirely every few months. But because the research was completed in August 1997, it could have taken into account the mixed successes of cities that were among the first localities to reform their health care systems, such as Shanghai, Shenzhen, and Dalian.

SHARING RISING IN COMES

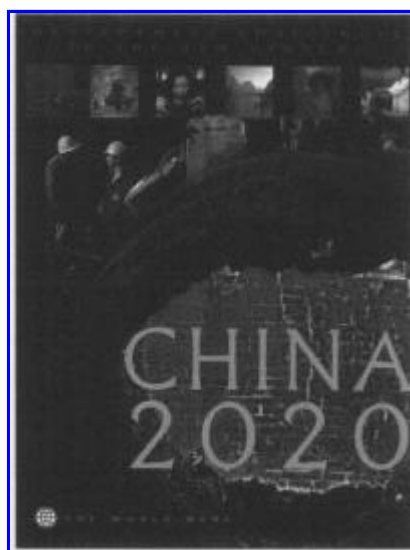
The China 2020 series also focuses on inequality in the PRC in *Sharing Rising Incomes: Disparities in China*. This volume analyzes the policies—and occasionally lack of policies—that have exacerbated the uneven distribution of the benefits of economic growth in China. PRC social policies have favored urban over rural areas, while economic policies give preferences to coastal versus inland regions. China's widening rural-urban income gap—rural incomes average 40 percent of urban incomes—has accounted for more than half of total inequality since 1985. While China's inequality is still moderate relative to other developing countries, the report warns that growing income polarization may impede growth, obstruct poverty alleviation efforts, and spark social tension. *Sharing Rising Incomes* suggests that boosting rural incomes will go a long way toward reducing poverty, and provides policy guidelines for the three different categories of China's poor. For the "absolute poor," living on less than \$64 a year, the study suggests that Beijing should emphasize basic education and health services. For the "near poor," living on less than \$1 a day, efforts should concentrate on reforming agricultural policies, improving transportation and distribution networks, and integrating labor markets. And for the small category of "urban poor," whose numbers are expected to rise in coming years, the authors suggest

establishing government programs to monitor unemployment and provide unemployment compensation as well as labor training.

OLD AGE SECURITY

Old Age Security: Pension Reform in China is a masterful examination of the structure of the existing pension scheme as well as an analysis of means to instill greater efficiency. The World Bank report describes an essentially positive scenario: despite heavy, imminent responsibilities for redundant workers, and a population moving quickly toward retirement, China is well able to afford the costs. The key is for policymakers to recognize the urgency of moving now from a pay-as-you-go pension system to a pooled, fully funded one. If steps are not taken soon to extend coverage and increase pooling, standardize the system, raise the retirement age, and make available more financial instruments, the contribution rate required to sustain promised benefits could soon amount to 50 percent of salary. The report cuts quickly to the chase: the central government must standardize the local models that have been in place for as long as a decade; transfer administration to a separate agency and lighten the administrative burden of companies; index benefits to inflation rather than wages; and stop accumulating new debt in the pension system.

Most impressive is the report's thorough collection of information. Though the report is comprehensive, up to date, and utterly persuasive, it is of greater use to its target readership-government officials and academics-than to business. There is little or no detail provided on the obligations of corporate employers, so companies needing to understand their costs and administrative obligations wherever they operate in China still need to visit local social insurance administrations.



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CHINA ENGAGED

China Engaged: Integration with the Global Economy focuses on trade, investment, and capital flows in the PRC and how trends in these areas will likely change over the next several decades. The report predicts that China's economy will be fueled by rising imports of hightechnology, capital-intensive, and knowledge-based products; the diversification and expansion of capital flows, particularly into infrastructure projects and China's interior provinces; the elimination of trade barriers; and entry into the World Trade Organization.

The authors contend that the effects of these and related policies will triple China's share of world trade (to about 10 percent) by 2020, making it second only to the United States in total trade volume. According to the report, China's trade integration should benefit most countries, industrialized and developing alike. Industrialized countries will likely experience accelerated export growth, relative price gains from higher value-added exports, and greater access to the China market, while other developing countries may capitalize on China's diminishing ability over the long term to produce internationally competitive lower valueadded products. Compared to other volumes of the China 2020 series, this 40-page report, clearly written and packed with valuable analysis of China's external sector, is a must-read for any strategist or planner looking at China's current and future roles in the global economy.

[Author note]

US-China Business Council staff members Iain K. McDaniels, Kirsten Sylvester, Ann?VI. Weeks, Anne Stevenson-Yang, Darlene Af Ml. Liao, and Meredith Gavin Singer contributed to this review.

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